



MUNICIPAL OFFICE COMPLEX
8401 W. MONROE STREET
PEORIA, AZ 85345

**CITY COUNCIL SPECIAL MEETING
AND STUDY SESSION
NOTICE & AGENDA
Tuesday, January 03, 2012
5:00 PM
CITY COUNCIL CHAMBER**

**CONVENE:
ROLL CALL:**

CITY COUNCIL:

Mayor
Bob Barrett

Mesquite District
Cathy Carlat, Vice Mayor

Acacia District
Tony Rivero

Ironwood District
Dave Pearson

Palo Verde District
Ron Aames

Pine District
Carlo Leone

Willow District
Joan Evans

City Manager
Carl Swenson

**FINAL CALL TO SUBMIT SPEAKER REQUEST
FORMS:**

CONSENT AGENDA

CONSENT AGENDA: All items listed with "C" are considered to be routine or have been previously reviewed by the City Council, and will be enacted by one motion. There will be no separate discussion of these items unless a Councilmember so requests; in which event the item will be removed from the General Order of Business, and considered in its normal sequence on the Agenda.

CONSENT – New Business:

1C Authorization to Hold an Executive Session

Pursuant to A.R.S. § 38-431.03: Discussion and possible action to authorize the holding of an Executive Session for the purpose of:

- a) Consultation with the City's attorneys concerning the City's position in discussions with the Seattle Mariners and San Diego Padres regarding contract renewals for the use of the Peoria Sports Complex, pursuant to A.R.S. § 38-431.03(A)(4).
- b) Discussion and consultation with the City's attorneys regarding claims of Jane Doe X, Jane Doe Y and Jane Doe Z v. City of Peoria, pursuant to A.R.S. § 38-431.03(A)(4).

STUDY SESSION AGENDA

Subjects for Discussion Only:

1. City Council Interaction with Director/Deputy City Manager Position Finalists
2. City of Peoria's Water, Wastewater, and Reclaimed Water Rates for FY2013-FY2016

ADJOURNMENT

NOTE: Documentation (if any) for items listed on the Agenda is available for public inspection, a minimum of 24 hours prior to the Council Meeting, at any time during regular business hours in the Office of the City Clerk, 8401 W. Monroe Street, Room 150, Peoria, AZ 85345.

Accommodations for Individuals with Disabilities. Alternative format materials, sign language interpretation, assistive listening devices or interpretation in languages other than English are available upon 72 hours advance notice through the Office of the City Clerk, 8401 West Monroe Street, Room 150, Peoria, Arizona 85345 (623)773-7340, TDD (623)773-7221, or FAX (623) 773-7304. To the extent possible, additional reasonable accommodations will be made available within the time constraints of the request.

PUBLIC NOTICE:

In addition to the City Council members noted above, one or more members of the City of Peoria Boards and Commissions may be present to observe the City Council meeting as noticed on this agenda.

CITY OF PEORIA, ARIZONA
COUNCIL COMMUNICATION

SS: #1

Date Prepared: 20 December 2011

Council Meeting Date: January 3, 2012

TO: Mayor and Council
FROM: Carl Swenson, City Manager
SUBJECT: City Council Interaction with Director/DCM Position finalists

Purpose:

This is a request for City Council to consider and provide feedback regarding the City Manager's proposal for Council role in the review and approval of Deputy City Manager and Department Director positions.

Background/Summary:

On December 13, 2011 the Policy and Appointments Council Subcommittee expressed interest in greater interaction with finalists for vacant department director and deputy city manager candidates. In an effort to provide more interaction between council and candidates, I proposed the process as outlined in option A. The proposal is in keeping with the Peoria City Charter and has been reviewed by the city attorney. The information gleaned by council members in this proposed process is to help give council members a greater sense of confidence in the choice of candidates being presented for council confirmation.

Previous Actions:

The Policy and Appointments Subcommittee on December 13, 2011 unanimously recommended option A be memorialized in a City Manager's Office Administrative Policy.

Options:

Option A: City Council Interaction process with Director and Deputy City Manager Position Finalists

- At the beginning of an external recruitment, the city manager will distribute the job description of the subject position to council. Interested council members can request one on one discussion with city manager to share their observations regarding the position and recruitment.

- Candidate forum: A candidate forum will be held with the final candidates in which council members and the general public will be invited to participate. The facilitated forum will include:
 - Structured question and answer period where finalists provide an oral resume and respond to questions from council members and the public.
 - Unstructured meet and greet time where council members and the public can get to know the finalists.
 - Council members may individually provide observations to the city manager following this candidate forum.
- City manager presents selected candidate to the city council for formal confirmation.

Option B: Maintain current selection process.

Staff's Recommendation:

Discuss and possible action to support a City Manager's Office Administrative Policy that will provide the Mayor and Council greater interaction with finalists for deputy city manager and director vacant positions.

Fiscal Analysis:
Not applicable

Exhibit(s): None

Contact Name and Number: Carl Swenson, City Manager, x7572

**CITY OF PEORIA, ARIZONA
COUNCIL COMMUNICATION**

SS: #2

Date Prepared: December 14, 2011

Council Meeting Date: January 3, 2012

TO: Carl Swenson, City Manager
FROM: Katie Gregory, Interim Management and Budget Director
THROUGH: Susan Thorpe, Deputy City Manager
SUBJECT: Water, Wastewater, and Reclaimed Water Rates

Purpose:

This is a request for City Council to review the proposed rates for the City's Water, Wastewater and Reclaimed Water systems for FY2013-2016. Based on Council discussion and input at the Study Session, staff will prepare a final rate recommendation to be adopted by the Council as part of the FY2013 budget adoption process.

Background/Summary:

As you recall, during the FY2012 Rate Study and budget process, staff worked with an outside consultant to revise the City's Water and Wastewater rate structures and forecast necessary rate adjustments for the period of FY2012 to FY2016. Prior to the FY 2012 adjustments, utility rates had not been adjusted since FY2009. The Rate Report identified the need for adjustments to improve the City's financial strength in the areas of bond coverage and operating cash availability to ensure adequate revenues are available to 1) sufficiently fund the on-going operations of the utility systems, 2) maintain existing infrastructure, 3) provide for a portion of the costs of new infrastructure, and 4) increase the base rates to better recover the fixed costs associated with the utility systems.

LAST YEAR'S ESTIMATED RATES:

Last year's Rate Study included forecasted rate adjustments as follows:

	Adopt. <u>FY2012</u>	Proj. <u>FY2013</u>	Proj. <u>FY2014</u>	Proj. <u>FY2015</u>	Proj. <u>FY2016</u>
Water:	4.60%	2.60%	3.15%	3.30%	0.00%
Wastewater:	<u>4.50%</u>	<u>6.40%</u>	<u>4.70%</u>	<u>0.00%</u>	<u>0.00%</u>
Combined:	4.60%	4.00%	3.75%	2.00%	0.00%
Total Bill Impact:	3.60%	3.1%*	3.1%*	1.6%*	0.0%*

*Estimated impacts assumed no adjustments to Residential Solid Waste rates.

Financial Outlook

Staff has been evaluating the financial results of the first five months of this year under the new rate structure for Water and Wastewater. Due to the favorable consumption trends in the Water fund, the forecast has been slightly adjusted since the October 28th Council Budget Workshop. Based on recent financial information, the estimated Water rate increases are lower than projected in last year's Rate Study. However, as a result of lower than anticipated revenues, the estimated Wastewater rate increases exceed those in last year's Rate Study. The net impact of the combined Water/Wastewater rates, over the four year forecast, is slightly higher than last year's estimate by 1.25%. However, this does not incorporate a reduction in the Residential Solid Waste rate.

THIS YEAR'S ESTIMATED RATES:

	<u>Proj.</u> <u>FY2013</u>	<u>Proj.</u> <u>FY2014</u>	<u>Proj.</u> <u>FY2015</u>	<u>Proj.</u> <u>FY2016</u>
Water	2.9%	2.4%	1.6%	0.0%
Wastewater:	<u>9.2%</u>	<u>4.2%</u>	<u>4.0%</u>	<u>0.0%</u>
Combined:	5.3%	3.1%	2.6%	0.0%
Total Bill Impact %:	4.2%	2.5%	2.2%	0.0%
Est. \$ Impact per month:	\$ 3.18	\$2.08	\$1.74	\$0.00

Staff has recommended a Residential Solid Waste rate decrease of 13%, effective in FY2013 that would reduce the monthly Solid Waste fee by \$1.96. This recommendation received unanimous support from the Public Services Subcommittee and will be considered by the full Council in a January Study Session. If the recommended Solid Waste rate is adopted, total residential bill impact of the forecasted FY2013 adjustments for Water, Wastewater and Solid Waste is projected as follows:

Total Residential Bill Impact %:	1.7%	2.5%	2.2%	0.0%
Est. \$ Impact per month:	\$ 1.22	\$2.08	\$1.74	\$0.00

FY2013 Forecast Updates

Staff has been monitoring actual FY2012 monthly revenues for both the Water and Wastewater funds. With five months of data available, FY2013's results are different than forecast in last year's rate study. As discussed in the October 28th Council Budget Workshop, these estimates impact the rate adjustments needed for FY2013 and future years.

Water consumption this year is trending higher than the level on which last year's Rate Study was based. If this trend continues, it could result in staff recommending a smaller increase in Water rates in the later years of the forecast.

Similar to the methodology used by some other cities, wastewater revenues are calculated based on the customer's previous year's winter average Water consumption during January, February and March. Last year's Rate Study projected that more consistent consumption patterns would resume in FY2012 following what was thought to be a weather-influenced aberration from the winter of 2010. However, current year Wastewater revenues are projected to be lower than forecasted in last year's Rate Study. This shortfall results in the need for higher than anticipated Wastewater rate increases in FY 2013.

The city's methodology of using the prior year winter water consumption to determine the subsequent year's wastewater rates contributes to a lack of certainty in wastewater revenues. Last year's Rate Study outlined strategies to ensure a more predictable revenue stream for Wastewater. Consistent with the Rate Study's recommendation, wastewater adjustments over the forecast period include increasing the percentage of fixed revenue through higher base charges to begin reducing some of the volatility in variable, consumption-based revenues.

Rate Planning Objectives

During the FY2012 rate adoption discussions, staff identified the need to improve the City's financial strength in the areas of debt coverage ratios and operating cash availability and to comply with the City's adopted Principles of Sound Financial Management. Staff expressed concern that, without a series of rate adjustments, the Utility's ratio of net revenues to debt service obligations would remain at a level below what is expected by outside credit rating agencies and not consistent with the City's current bond ratings. The forecasted adjustments would raise the Utility's ratios from below 1.4X coverage in FY2011 to 2.0X coverage in FY2016. Prior to FY2012's rate adjustments, one credit agency had given Peoria's Utility funds a negative rating outlook. After the City's adoption of last year's adjustments and a review of the City's planned future adjustments, that same rating agency revised Peoria's outlook to "Stable".

The recommended adjustments are necessary to adequately fund the Utility system's operations along with the necessary repair and maintenance program included in the adopted FY2012 operating budget and Capital Improvement Program (CIP). As part of the City's regular budgetary planning process, Utility staff will update the system's operational costs and maintenance and repair needs based on current conditions. These will be incorporated into the recommended FY2013-2022 operating budget and CIP.

These rate adjustments are also necessary to improve cash availability and allow both utility funds to pay for necessary infrastructure improvements and additions during the forecast period, while maintaining sufficient operating reserves. Improving the system's cash reserves is consistent with expectations of credit rating agencies for 'AA' rated utilities.

Reclaimed Water

The City produces and delivers Reclaimed Water to a number of customers throughout the City for irrigation uses. The main customers are the Vistancia golf courses, HOAs, a school and the City. Revenues from the sale of Reclaimed Water help offset the revenues required from Water rate payers. The City's Reclaimed Water rate is \$1.05 per 1,000 gallons, which has not changed since 2006. This original rate was calculated solely for Vistancia's use and was based on a number of factors that have changed since that time.

Staff recently performed a comprehensive analysis of the city-wide system and determined that the costs for treatment and delivery of Reclaimed Water are approximately \$1.25 per 1,000 gallons. Staff recommends the Council consider an adjustment to the Reclaimed Water rate based on current budgets and forecasts, cost assumptions and consumption patterns. Staff also recommends setting the Reclaimed Water rate at 33% of the potable irrigation rate. Based on the projected landscape rate, this would yield a rate of \$1.25 per 1,000 gallons in FY2013. At this level, staff believes that the delivery costs can be recovered while still providing an incentive for expanded use of Reclaimed Water.

Previous Actions

On April 7, 2011, staff provided Council with the final results of the Water/Wastewater Rate Analysis conducted by Raftelis, Inc. At that time, staff informed Council of the need for multi-year rate adjustments to meet both operational requirements and financial goals.

On May 17, 2011, as part of the Tentative Budget Adoption, Council approved a combined Water/Wastewater rate increase of 4.6% for FY2012 resulting in a \$2.67 net utility bill impact to the average residential customer. This was the only rate adjustment since FY 2009.

On October 28, 2011, at the Council Budget Workshop, staff provided the Council with an update of the rate projections for FY2013 – FY2016.

On December 1, 2011, the Public Services Subcommittee unanimously approved forwarding a recommendation to the full Council to reduce the Residential Solid Waste rate by 13% in FY2013. This rate reduction will help offset the necessary increase in residential Water and Wastewater rates for FY 2013.

Options:

This is an informational presentation only.

Staff's Recommendation:

This is a request for City Council to review the proposed rates for the City's Water, Wastewater and Reclaimed Water systems for FY2013-2016. Based on Council discussion and input at the Study Session, staff will prepare the FY2013 Water and Wastewater operating and capital budgets incorporating recommended rate adjustments for final budget adoption in June.

Fiscal Analysis:

This is an informational presentation only. Fiscal impacts will vary based on Council direction.

Narrative:

Delivering safe Water and Wastewater services and maintaining regulatory compliance in the most cost effective way are the primary objectives of the water and wastewater divisions of the Public Works – Utilities Department. The proposed Water and Wastewater rates reflect the necessary adjustments for the continued efficient operations of our utility systems while maximizing the effective life our utility infrastructure investments.

Exhibit(s):

Exhibit 1: Rate Analysis

Exhibit 2: City Comparisons – Utility Bill Rates

Exhibit 3: City Comparisons – Waste/Wastewater Bond Ratings

Contact Name and Number: Katie Gregory, 623-773-7364

Water and Wastewater
Rate Analysis

RECOMMENDATION

	FY2013	FY2014	FY2015	FY2016
Water	2.80%	2.40%	1.60%	0.00%
Wastewater	9.20%	4.20%	4.00%	0.00%
Combined:	5.30%	3.10%	2.60%	0.00%
TOTAL Bill Impact	4.20%	2.50%	2.20%	0.00%
With Residential Solid Waste (RSW) adj.	-13.00%	0.00%	0.00%	0.00%
TOTAL Bill Impact w RSW	1.70%	2.50%	2.20%	0.00%

PROS: Leverages RSW reduction, therefore minimal increase to average citizen's bill.
Meets Operating and CIP needs in FY2013.
Meets Financial Metrics by FY2016.
Wastewater deficit resolved in FY2013.
Debt ratio reaches goal by FY2016.

CONS: Increase 1.7% to average citizen's bill.

"ZERO" NET IMPACT SCENARIO

	FY2013	FY2014	FY2015	FY2016
Water	0.80%	2.40%	1.60%	0.00%
Wastewater	6.80%	4.20%	4.00%	0.00%
Combined:	3.10%	3.10%	2.60%	0.00%
TOTAL Bill Impact	2.50%	2.50%	2.20%	0.00%
With Residential Solid Waste (RSW) adj.	-13.00%	0.00%	0.00%	0.00%
TOTAL Bill Impact w RSW	0.00%	2.50%	2.20%	0.00%

Achieved in one of two ways:

1. Operating Reductions of \$1.3m Ongoing (\$1m in Wastewater and \$300k in Water)

PROS: No net change to average citizen's bill.

CONS: Requires significant reduction in core services.
Increase risk of system failure.
Increase risk of noncompliance with state regulations.

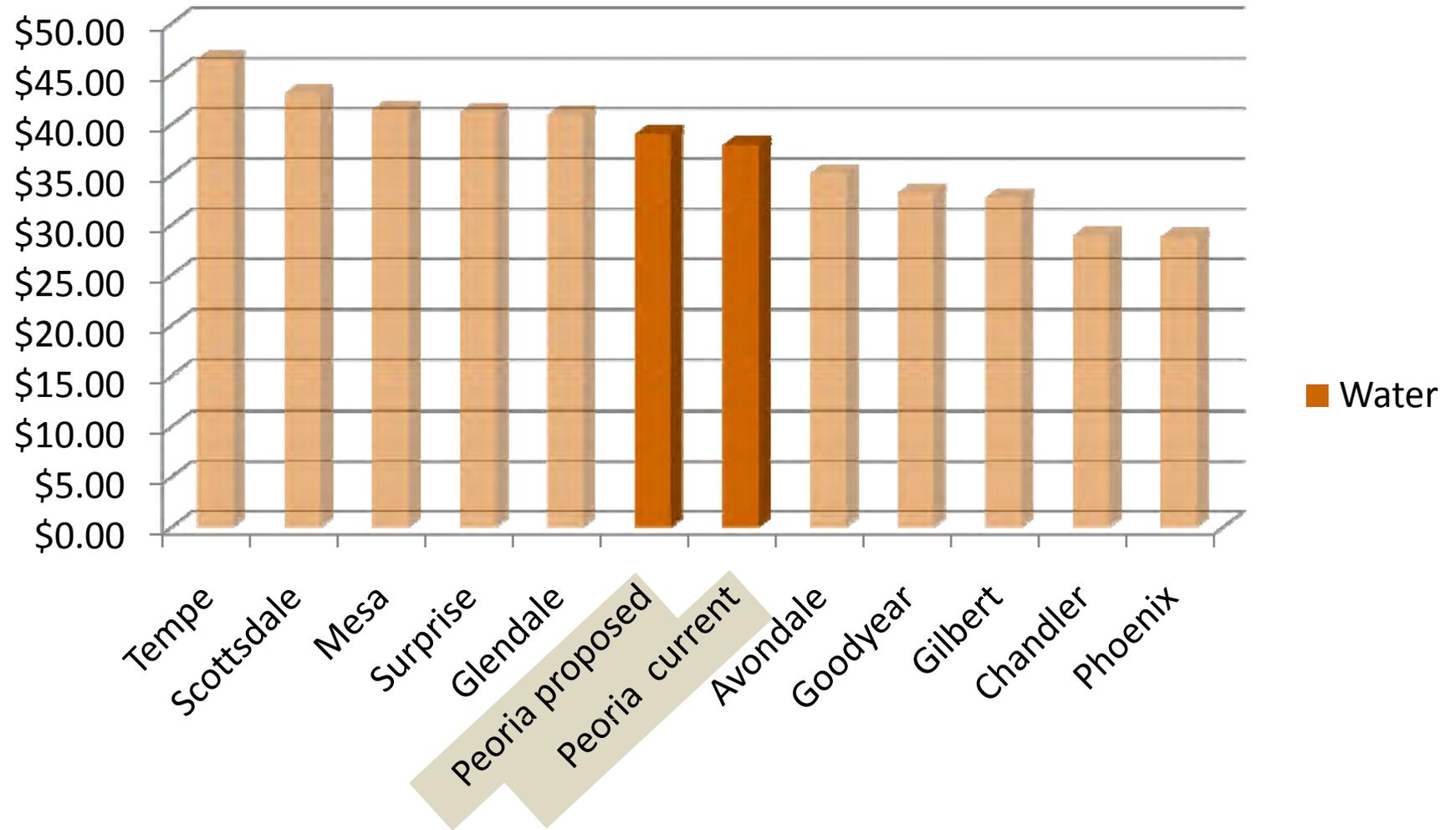
2. Forego Financial Metrics

PROS: No net change to average citizen's bill.

CONS: Increase risk of bond rating "downgrade".
Non-conformance with Principles of Sound Financial Management.
Prolongs number of years of adjustments.
Financial Metrics not met in planning period.

City Comparison *Water Utility Bill*

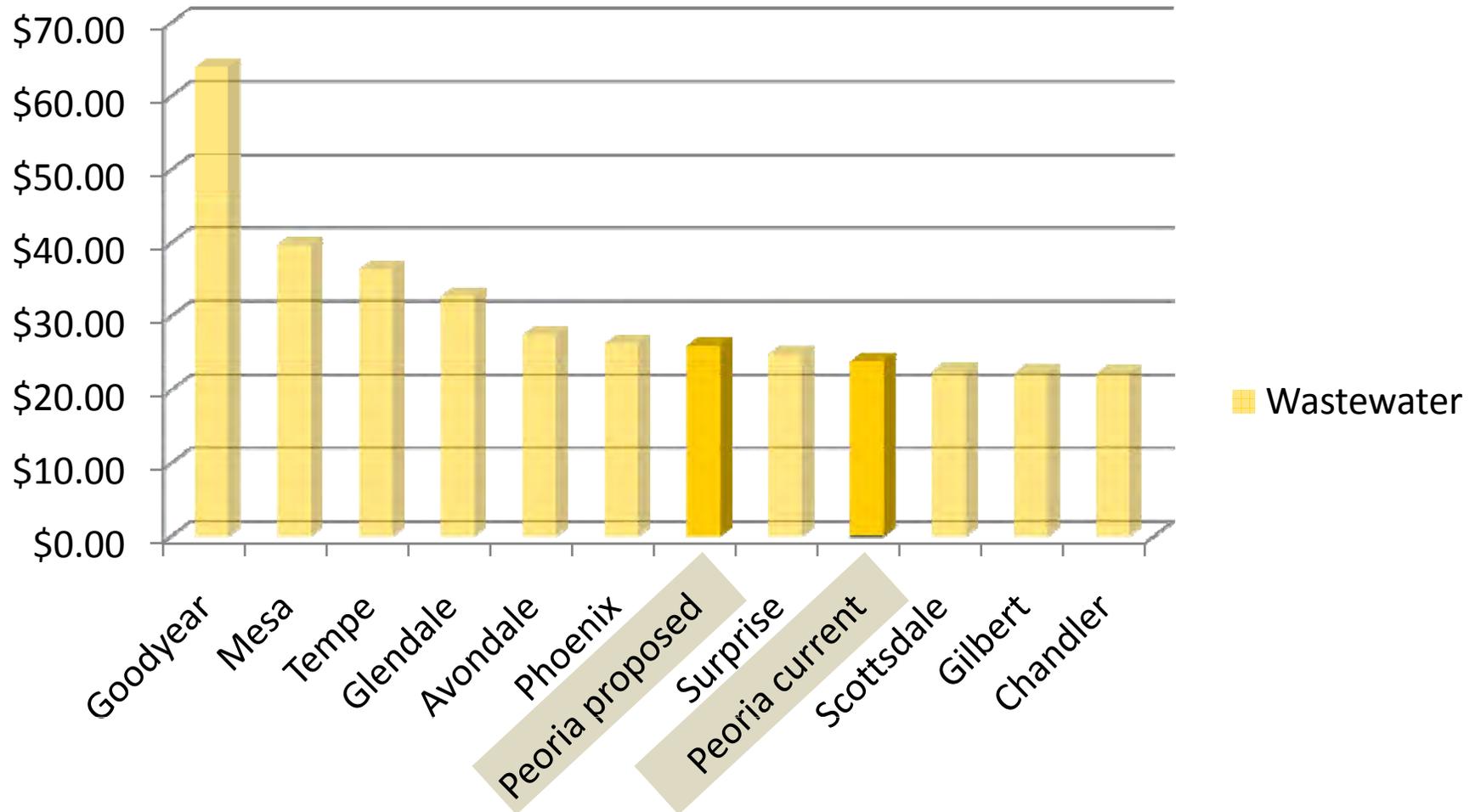
(Medium Volume Water User)



City Comparison

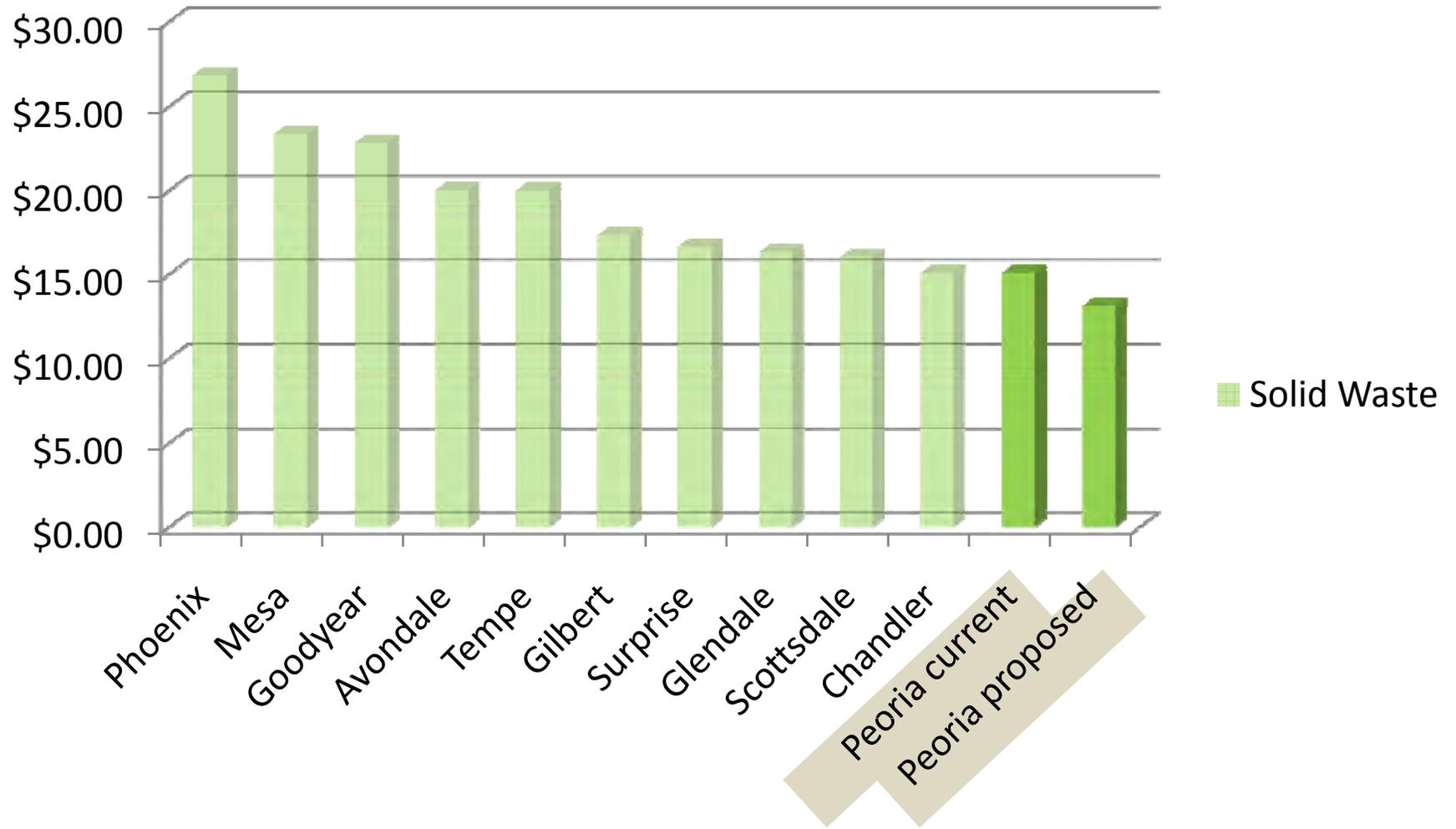
Wastewater Utility Bill

(Medium Volume Water User)



City Comparison

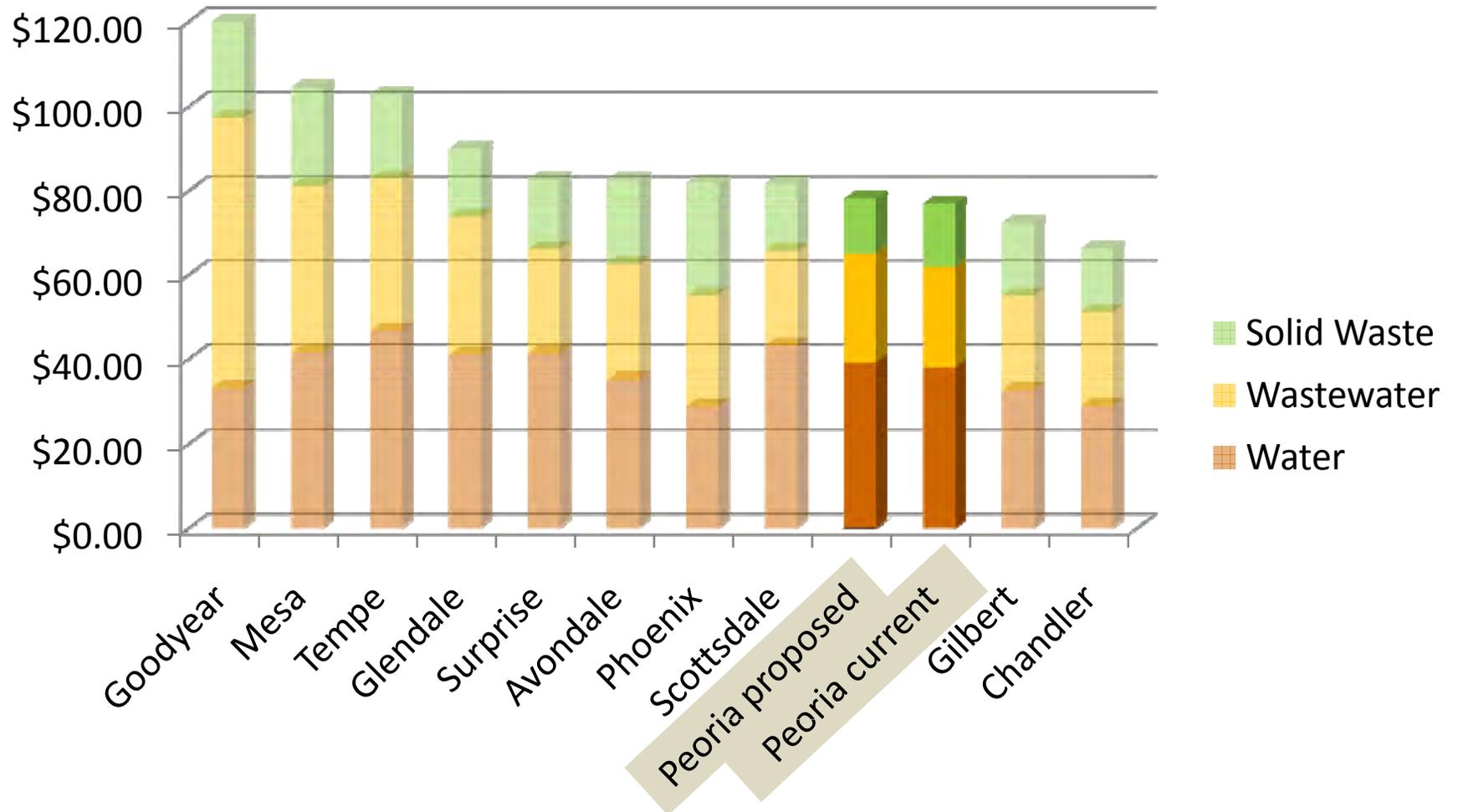
Solid Waste Bill



City Comparison

Combined Utility Bill

(Medium Volume Water User)



Water & Sewer Revenue Bond Ratings of Cities in Maricopa County*

City	Moody's	Standard & Poor's	Fitch	Notes
Avondale	NR	AA-	NR	
Chandler	Aa1	AA+	AA+	
Gilbert	Aa3	AA+	NR	
Glendale	Aa3	AA	NR	Sub. Lien Revenue
Goodyear	A1	A+	NR	
Mesa	Aa2	AA-	NR	Combined Utility System
Peoria	Aa3	AA	AA	
Phoenix	Aa2	AA+	NR	Jr. Lien Water/Wastewater
Scottsdale	Aa1	AAA	AA+	
Surprise	NR	NR	NR	No W/S Bonds Outstanding
Tempe	NR	NR	NR	No W/S Bonds Outstanding

* Ratings reflect the underlying ratings for Water & Sewer Revenue Bonds. Bond issues that have been insured are not shown.

As of December 1, 2011. Does not reflect any changes in ratings since that date.